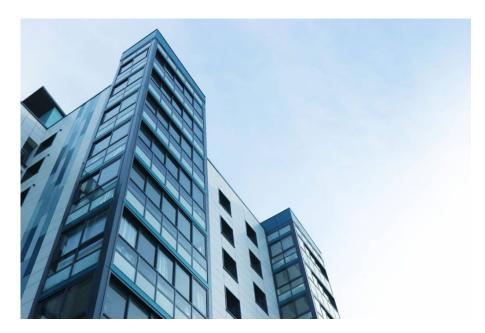


UK prime CRE yields continue to harden, with yield gap and strong fundamentals likely to further drive investors to regional offices

4 months ago



<u>Savills</u> says that despite turbulence in the equity markets and wider macroeconomic uncertainty, the average UK commercial prime property yield has fallen to 5.9%, with pressure on yields in 10 sub-sectors to harden, as real estate continues to provide a resilient home for capital compared to some other asset classes.

According to the international real estate advisor, offices in the UK's regional cities are looking especially attractive to investors given occupational trends and current pricing. In its latest <u>Market in Minutes report</u>, Savills says that West End office yields in London have now hardened to 3.75%, with those in the City at 5.25% but under downwards pressure; average prime office yields in the UK's regional cities, however, are currently 6.75%. Savills says that this current yield gap with central London offices offers investors a relatively short window to acquire assets at discounted prices in the Big Six UK cities.

At the same time, the fundamentals of the regional office market remain strong: Savills says that office take-up across the Big Six regional cities in Q1 2025 totalled 991,661 sq ft, 9% above the same period last year and 6% above the five-year average, with demand for prime office space remaining robust. A very limited pipeline of new development in most cities is set to maintain rental growth, and provide a solid foundation for investors seeking income returns.

James Emans, joint head of national investment at Savills, comments: "Real estate is looking relatively less



volatile than some other capital markets, and, with sentiment suggesting that interest rates are expected to fall further, the comparative pricing of UK real estate is very appealing at the moment. Layer this on top of the unique opportunity currently available in the UK regional office market, alongside its continued strong fundamentals, and the case to buy now is even more compelling. We saw a very diverse range of international investors in the market last year, driven by the opportunities available, and with over £400 million of regional offices placed under offer since January, we're anticipating that 2025 will remain strong."

James Evans, Savills head of national office agency, adds: "Consistently resilient office demand across the UK's major cities, alongside a dwindling supply of high-quality assets, means that rental inflation and competition for the best space is unlikely to reduce. Despite more turbulent economic conditions we expect there to be robust demand from occupiers in the Big 6 regional office markets, particularly within the professional service sector. This will in turn help drive the investment market."